Case 2:02-cv-02685-GEB-CMK Document 236 Filed 08/13/08 Page 1 of 24 IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF CALIFORNIA ---000---BEFORE THE HONORABLE GARLAND E. BURRELL, JR., CHIEF JUDGE ---000---LYNN NOYES, Plaintiff. No. Civ. S-02-2685 VS. KELLY SERVICES, INC., Defendant. ---000---REPORTER'S TRANSCRIPT HEARING MONDAY, JUNE 16, 2008 ---000---Reported by: KIMBERLY M. BENNETT, CSR #8953 RPR, CRR, RMR

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MR. CONNAUGHTON: Thanks, Your Honor.

Good morning. I will first address the punitive damages issue raised by Your Honor in Your Honor's order of the other day regarding whether or not there was a managing agent sufficient for punitive damages to exist.

The crux of this issue goes back to California Civil Code Section 3294. 3294 says that there are two situations, and two situations only, when punitive damages are appropriate against a California employer. Those are:

Number one, if an officer, director, or managing agent acts with malice, oppression, or fraud. That is not an issue here. Plaintiff has conceded she is not proceeding under that theory. So all we have left is the second prong of 3294.

The second prong of 3294 requires that an officer, director, or managing agent ratify or approve the despicable conduct, the malicious, oppressive, fraudulent conduct, otherwise engaged in by some other employee. That's what this entire issue is about.

Two issues on that, Your Honor:

Number one, I think it would be appropriate for Your Honor to make a ruling that, in fact, there was insufficient despicable conduct by anybody. And I'd ask that -- there is a semi new issue that came up as I was reviewing plaintiff's reply briefs that I wish to raise, and that is even the

United States Supreme Court has now recognized that there are certain cases, even intentional discrimination cases, where punitive damages are inappropriate. And I would suggest that this is exactly one of those cases.

The case is Kolstad versus American Dental
Association. I think it's a 1999 Supreme Court case. And if
Your Honor needs a cite, it's 527 US 526.

The issue there, what the Supreme Court says, is that if the person making the decision doesn't realize that they're breaking the law, there should be no punitive damages, even if, in fact, they are. And that's exactly what we had here with Mr. Heinz, who testified, nope, he didn't think this was a religion. If anything what we have is associational discrimination, but he didn't see it as a religion. The other people testified they didn't know it was a religion. So, perhaps this is exactly that narrow type of case described in Kolstad.

In addition, the other interesting thing that Kolstad says is that punitive damages may not be appropriate in a case where there is a novel theory of law. And I think we can all argue whether or not this particular theory, this reverse religious discrimination, is difficult or not, but it's certainly novel. The Ninth Circuit opinion was the first case, at least that we saw, to actually authorize it when it reversed the original summary judgment.

So it is not a stretch to not only either rely upon the fact that perhaps this was associational discrimination; the person making the decision didn't realize he knew what he was doing was wrong. Or, this is a new theory, and we're not going to allow this massive, enormous punitive damages award on this narrow, new, novel theory of law. So that's number one. It would be easy to say there really was no despicable conduct by anyone, but let's get to the more, I think, direct issue.

For there to be ratification or authorization, it requires evidence, clear and convincing evidence, that the managing agent intended to adopt or approve whatever that despicable conduct was; adopt or approve that malicious, fraudulent conduct. There are two key cases on that point. One is College Hospital versus Superior Court, the other is Cruz versus Home Base. They're both cited in our briefs.

Here there is only one managing agent. Just one. That was Ms. Ramsey. Everyone else who testified, or about whom there was evidence, was a human resources generalist, or someone upon whom there was absolutely no evidence that they could have affected corporate policy. So, starting with that point, we've got this one person.

So the question is, is there clear and convincing evidence that Ms. Ramsey took action to approve, ratify, the one decision that was at issue here, this failure to promote.

And the evidence, Your Honor, showed she didn't even know about it until after. She didn't know the decision had been made regarding Ms. Noyes until after it occurred. So, she certainly didn't have prior knowledge, as would otherwise be required. And then after she knew, what was the admissible evidence about what Ms. Ramsey did, our only managing agent? She required an investigation to be done. She helped put in place remedial measures. And then they waited, once the DFEH ruled, and they got that ruling that supported the actions that they had taken. That is it. There is no action on her part that showed she had any intent to approve, ratify, authorize anything that Mr. Heinz had done. And I would suggest that, by itself, leaving aside the Kolstad issues, leaving aside everything else, is enough to require the punitive damages issue to be taken away.

In addition, Your Honor, this Court also concluded, when it went through its mixed motive analysis, and I'll leave that issue for some other time, that there must have been sufficient evidence for there to have been a good motive for Lynn Noyes not to have been selected, otherwise Your Honor couldn't have given that mixed motive instruction. There had to have been sufficient evidence to say, yes, they could have done this for a fair reason. That additionally shows the lack of despicable conduct on behalf of anybody.

I will leave additional comments, if Your Honor wishes

them, for after Ms. Jones makes her comments.

But upon that one issue, on managing agent, I'd ask

Your Honor to re-review that Cruz case, and the College

Hospital case, and White versus Ultramar, because California

law is pretty specific.

Federal law is easy because we've got that 300,000 cap. We're 20 times over that. This jury went 20 times over what the federal law would require. And California law has similarly protective measures, and they go at this managing agent, officer, director issue.

Okay. Let me hit the second issue, if only briefly, on the constitutionality of the amount.

State Farm, and Gore, and the State Supreme Court case Simon all stand for the same thing, more or less; that you look at reprehensibility, look at these other factors, and then at the end of the day, if the compensatory award is already substantial, we have to be very careful with any punitive award. So, if the compensatory award looks like it includes punitive amounts, anything more than one time the amount would be getting past our due process limits. If it has -- and I think the word in State Farm is substantial, they say anything more than one or two or four times would be too much.

Here, let us not lose sight of the amount of this award. Ms. Noyes when she left her employment made \$57,000 a

year. The economic award here was about three times, she had three years of pay in just economics, for a job that everyone conceded at trial she would have lost shortly thereafter because the whole place got shut down. So we've got three years of economics. And then on top of that we've got the \$500,000 emotional distress award, which was based upon Ms. Noyes's testimony that she may have seen a doctor a few times, she might have gotten Xanax, and some other things, but no history of treatment, no disability, nothing like that, and she got an additional ten years of pay, nearly, for that.

I would suggest, Your Honor, that is as clear evidence from the jury of a punitive or quasi-punitive award as there could be. And given that there is this substantial emotional distress award, on top of this substantial economic award, neither of which appear to be justified from the testimony given from the stand, but so be it, the award of the punitive damages being nine times is far beyond that which is constitutionally permissible under State Farm, under Gore, and under Simon.

Thank you, Your Honor. I'll reserve my other comments for rebuttal, if I may.

THE COURT: Okay.

MR. CONNAUGHTON: Thank you.

MS. JONES: Good morning. On the managing agent

issue, I have reviewed those cases, of course. The White versus Ultramar case is the main case cited by the defense.

In that case the court -- it was a California Supreme Court case where the court looked at the two ways of evaluating a managing agent. On the one side there were courts of appeal saying that all it had to be was someone who hired and fired that had the authority to do that. And the White court said, no, that's not enough, we need more, we need to have someone higher up in the corporate hierarchy who actually can establish policies.

In White versus Ultramar, the Court also discussed and approved of the Kelly Zurian versus Wohl case, which I don't believe was cited by either side; that's 22 Cal.App. 4th 397. That case, the local boss was found not to be a managing agent because he wasn't high enough in the corporation. And in that case the court specifically noted that the authority to establish corporate policies rested in Saint-Louis, which was the out-of-state corporate office. That's exactly what we have here. The authority to make those policy decisions rests in Troy, Michigan, where corporate headquarters is located.

We're not seeking to pin our punitive damage award on simply Ms. Ramsey, it's the corporation, through its officers, directors, or managing agents, during the whole period where the discrimination was allowed to take hold in

1 the Nevada City office. And here it was Troy that had that 2 authority. We've identified five corporate officers. And I don't believe that it's plaintiff's problem that there was 3 4 such a high turnover at the corporation where they would have one person doing an investigation, Theresa Dolbert in '99, 5 6 with Tarek Brantley, who were no longer employed and out of 7 the subpoena power by the time this case came to trial, and even in 2001 they were no longer involved in the Nevada City 8 9 operation.

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The Supreme Court in White held that you do need more than just the hire and fire. So we have that here. have -- in White it was just a district manager who reported to department heads who managed eight stores and 65 employees, and they found her to be a managing agent under Civil Code 3294 so as to authorize an award of punitive damages.

We're going beyond that. We have people who are vice -- corporate vice presidents, such as Ms. Dolbert back in Michigan.

The Cruz versus Home Base case, that one was another one cited by defense for -- let's see, in that case a patron was accused of stealing plywood by a security guard at Home Base. And the person they were seeking to pin the punitive damages on in that matter was the manager of security of that store, and there was insufficient evidence in that case for

ratification for the punitive damage award. Clearly our case has a different level of ratification.

College Hospital --

THE COURT: What's the evidence of the ratification or approval here?

MS. JONES: Well, starting back in 1999, when the letter was sent to David Beckstrand at the corporate office to advise that there was some discrimination based on religion. After '99, when the corporate did the investigation, they -- I believe they knew, or should have known, that something was wrong in Nevada City, and they failed to take steps to stop what William Heinz was doing until it was too late, and they ended up closing the shop completely.

They failed to -- let's see, so your question is what's the evidence of the corporate ratification and authorization of the acts?

THE COURT: Yes. Ratification or approval.

MS. JONES: Or approval. So that would have been though any one of the corporate officers. Theresa Dolbert was a corporate vice president who was Mr. Heinz's boss, she was the woman who came out in 1999. Although she did not testify at trial, we had evidence concerning that investigation where people said, yes, I spoke with her, and there was supposed to be a result given to us, and that was

never done. So Theresa Dolbert is probably the highest ranking corporate officer who was aware of the situation.

Nina Ramsey, of course, is the senior vice president for human resources. Although Kelly is claiming that people like Darrah Bixler, who did testify, and Tarek Brantley, as human resources generalists, were not sufficiently high ranking enough, I believe under the cases cited by defense, Cruz, College Hospital, White, the Kelly Zurian case, that that's enough. My client waited until the month after the promotion, until Darrah Bixler was coming out to Nevada City, to tell her what was going on. This is the corporate representative from headquarters coming out to discuss it.

Even though Nina Ramsey may not have been aware of the situation until my client told her, even at that time when my client told her there hadn't been a DFEH filing, there hadn't been a lawsuit filed, the complaint was made, the situation could have been taken care of, and it was not. And there was testimony on that issue at the trial.

The letter written in 1999 was to human resources as well as corporate headquarters. And I think when you really examine these cases, you find that they're not really looking for some higher level -- higher standard of corporate managing agent ability to influence corporate policies. I mean, in that -- the White case there was simply a store manager of eight stores and 65 employees who was a managing

agent because that person had the ability to direct corporate policy right within each of those stores, a lot of authority was delegated to that person.

We, I believe, have shown that there were sufficiently high-level corporate decision makers involved in the decision to not promote my client in April of 2001. I mean, that's kind of the easy answer, that Kelly approved the promotion of Joep Jilesen. That was approval, that was corporate approval. And that they knew at that point, or should have known, certainly, that there was discrimination going on.

We presented all of the evidence that this Court has heard on the issues that were going on, and how the -- Kelly corporate failed to take effective action to stop it. And that's exactly what the jury picked up on. What it was was I think going back to that time. But, as well, my client had tried to resolve the problem before filing a lawsuit, and Nina Ramsey became aware of it then. And, again, we don't have control over whether or not corporate has a file that goes from one person to another as the person holding that job changes. And I think there was a real lack of follow through. Darrah Bixler testified -- well, I'll strike that.

So, they had -- Kelly corporate's involvement was pretty extensive in our opinion. Even if they didn't know -- if they denied and put blinders on to the fact of religious discrimination, they really should have given all the facts

and all the evidence that we presented, and what they knew, and what they had been told, and how they had been made aware of it through the exit interviews, through the letters, through their own investigation in 1999.

The reprehensibility issue is another -- it's an important issue, and they raised these new issues kind of in their reply, that the emotional distress award includes the punitive damage component. And that, I guess, the substantial -- I don't even know that -- because that word has a certain weight to it, that it therefore cancels out the punitive damage award.

Here the damages for emotional distress are very reasonable. And the trial was not bifurcated. The jury knew it had to decide both emotional distress and punitive damages. There was no reason, or logical explanation, as to why the jury would decide to lump together some portion of the punitive component into the emotional distress.

The evidence of emotional distress may have been short but it was certainly compelling. My client talked about the loss of her management career after commuting to Sacramento for seven years to get her MBA, and the jury put a very reasonable value on that. She talked also about how she felt continuing to work there when she thought she was going to get the promotion and she did not.

Remember, too, of course, that punitive damages are

not to compensate the plaintiff, they are to punish and deter conduct such as this that occurred in this case.

When you look at cases that talk about a substantial or -- I guess substantial compensatory damages that may already contain a punitive element, those cases, the Simon case, the amount of punitive damages was 340 times the compensatory award, and in State Farm it was 145 times.

Those are different standards, and that may raise a suspicion that I don't believe exists in this case.

Kelly is also making a claim, I guess, that its reprehensibility is negligible or mitigated as a matter of law because of their so-called legitimate factors, and that goes to the mixed motive issue that he was arguing this morning.

That argument doesn't work because they lost the trial because the jury did not buy their reasons. And they have told us over and over again about these reasons, the so-called legitimate business reasons including -- it's at page 5 of their moving brief, again at page 16, that they offered the job to Donna Walker, that Maya Bonhoff made an independent recommendation, that there was management group consensus.

I think many of those reasons actually added to Kelly's reprehensibility in this case, because the recommendation from Maya Bonhoff, we put on evidence it was

tainted, she didn't really know what was going on, she didn't think Lynn wanted the job. The management group consensus was just a phantom consensus, that never really happened either. I think since the jury did find malice by clear and convincing evidence, surely that should tip the scale in plaintiff's favor on the reprehensibility issue.

We have the five factors discussed in BMW versus Gore, which is -- or the BMW case talks about the five factors, that State Farm notes that the absence of any one of these may render an award suspect, but it's not unconstitutional per se, you don't even need all five. If you don't have any of those factors you may still have a constitutional award, it just needs to be looked at on a case-by-case basis. And I don't find those after the fact arguments very persuasive in this context because Kelly had the opportunity to put that evidence in, and the jury didn't agree with them; they found that there was reprehensible conduct.

I guess the ratio -- there are the two issues, the ratio and the reprehensible. If I turn now to the ratio issue, I believe that's been briefed fairly comprehensively, but a nine to one ratio is not excessive. It's at the top range, but it's not excessive. It's a single digit multiplier. And, of course, the Court has or will read the State Farm case, which is the controlling case in this area, and in that case it talks about punitive awards exceeding a

single digit multiplier to a substantial degree are suspect.

Ours isn't even exceeding a single digit multiplier.

So, the cases that talk about the two, or three times, four multipliers, some of them -- the Buell case, in that case the compensatory award was already so great that the jury's award of 55 million was the reduced award. The numbers just get -- they get really large if you're looking at the ratio and you have a large compensatory.

Our compensatory award is fairly reasonable given what happened. The ratio of the punitive damages to the compensatory is also within constitutional provisions of the due process clause as a single digit multiplier.

I hope that -- let's see. The cases that we've discussed, I think those -- there is also the Gelfo case that they cited on the managing agent issue. In that case there was no corporate decision maker involved in the employment decision, so it's insufficient evidence. Here there is evidence on both sides, and I believe it's substantial and it's enough to support the award.

If the corporation itself did not have the integrity to continue the investigation and to carry forth the information they learned from '99 into the 2001 time period, that's their fault. And I think that's partly why they're getting called to task for it, because they failed to take steps to prevent what happened to my client, almost as an

inevitable result of the prior allowing of the discrimination to flourish in the Nevada City office.

I've read Kolstad, it's been a while, so I can't respond on that case. I don't know, it wasn't in their brief, but the -- I think that -- well, I'll just have to leave that for now.

Did Your Honor also want to hear about the attorney's fees, or are we going to handle that separately?

THE COURT: You can argue that if you want to.

MS. JONES: Did you have any other questions on the constitutionality -- I think the managing agent issue is -- if you read the cases, we are clearly within the managing agent, those five people that I've identified as corporate officers, who had knowledge of what was going on.

Communication with the corporation was definitely taking place.

I think we may have even had a claim that William

Heinz was a managing officer, but I didn't need that because

we have so many corporate agents from the Troy office, the

headquarters, that were aware of what was going on and

authorized, ratified, that behavior of William Heinz.

The attorney's fees, it's basically -- there are many -- under Local Rule 54-293, there are many factors to be considered, including the customary fee in contingency, and I believe we've put on plenty of evidence to establish a

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reasonable lodestar.

The multiplier, that's a little more difficult in federal court, but there is plenty of state law, which is applicable here. The Court does have the discretion to enhance the award. I do not believe the lodestar in our case is excessive. If you look at the number of hours that were spent on this case, it's very modest.

And nor are the hourly rates excessive. We have put forth our declarations that say that that's what the market rate should be.

There are three federal Court USDC cases cited by defendant in their opposition, all three of those cases dealt with the same disability attorney who would file lawsuits for accommodations against fast food restaurants, and public accommodations, drug stores, things like that, and the Court seems to be in accord that that person's rate should be limited to 250 for that type of work. It's a lot of boilerplate pleadings, they file -- I think he had, like, 40 cases going. That's not my rate. That's not how I'm working. So there is a lot of discretion in the award of the fees, and I believe we've briefed that pretty fairly comprehensively as well.

THE COURT: Okay.

MS. JONES: Thank you.

MR. CONNAUGHTON: Thanks, Your Honor. I'll just make

a couple of follow-up points.

Number one, it sounds like now the issue in response to your question about what the approval or ratification was now is that there were people at corporate who were involved in the promotion decision. I think that was the -- and I believe that's belied by the record.

The record showed, and all of the testimony before this jury was, that Mr. Heinz made the decision, in consensus, if you believe him, with the people below him. There was not evidence that people at -- somewhere at corporate, certainly a managing agent, that made this decision with him. And that is another reason that shows why this managing agent 3294 issue is so crucial.

It's not sufficient to just say Kelly corporate did this, or these officers did that. There needs to be admissible, clear and convincing evidence of actual knowledge by someone who could set corporate policy. And there just isn't that evidence before this jury, with the possible exception of Ms. Ramsey, and the evidence as to what she did shows absolutely no approval, absolutely no ratification, and for that matter, and because of that, punitive damages, I think, are inappropriate as a matter of law.

As to the follow-on issue regarding whether the verdict was substantial, the judgment amount was substantial or not, it's -- for the same exact theory, under the parallel

state and federal law, the amount is double the capped amount if this were just a federal claim, same standards, same everything else. So I don't think there is a reasonable argument that it wasn't a substantial verdict, because were we just doing this under federal law it would be halved, just the compensatory, as a matter of law.

Leaving that and just going to the attorney's fees issue, the multiplier would be a windfall as a matter of law. The standard rate in this district under all of the published cases for experienced trial counsel is \$250 an hour. And I'd also respectfully submit that the documentation submitted in order to support the numbers is insufficient as a matter of law, but that is obviously an issue for Your Honor's discretion.

Thank you for your patience, Your Honor.

MS. JONES: Just one more comment.

It is -- at the very, very least Nina Ramsey knew about the discriminatory treatment when Lynn told her. And that was prior to filing any charges or any -- although the promotion had already taken place, it was wrong, and she was aware, she had been told that it was wrong.

I think there are still plenty of other officers that were aware of what was going on. Theresa Dolbert, Darrah Bixler was the one who knew the most about what was happening, and I think even as a human resources generalist

she had the ability to go back to her boss at headquarters and influence corporate policy. Notwithstanding defense counsel's suggestions that she had no such power, there was testimony that she counselled William Heinz on his job employment decisions, that she -- she was involved. She was the corporate liaison person who had the ability.

You've got a big separation of -- you know, between Troy and California, and the communications were not all that common, but certainly in this case we have a number of contacts with the corporation dealing with this issue of discrimination prior to my client not getting the promotion, and then after. So there is -- there are five corporate officers at the very least.

Thank you.

THE COURT: The matter is submitted.

MR. CONNAUGHTON: Thank you, Your Honor.

(Court adjourned, 9:37 a.m.)

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